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IPO Note
Tuesday, May 7, 2024
Research Team Coverage
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Main Market
Industrial Products & Services Sector
Subscribe
IPO Price: RM0.80
Fair Value: RM0.95

Feytech Holdings Bhd

Accelerating Growth

Valuation / Recommendation

We recommend SUBSCRIBING to Feytech Holdings, with a **FV of RM0.95 based on 11x FY25F EPS**, indicating a potential upside of 18.5% to the IPO price. Our target PE of 11x is at a 30% premium to comparable peers' average PE, which we believe is warranted given Feytech's strong growth prospects amid new client wins recently.

Investment Highlights

Strong growth trajectory. Feytech experienced impressive revenue growth from FY20-FY23, reflecting a 3-year CAGR of 38.6%. This growth was driven by the expansion into the manufacturing seat division, particularly through seat production for Kia Malaysia in FY22 and Mazda in FY23. Additionally, recent agreements with new clients (Peugeot and Client 2) are expected to drive further growth, with anticipated substantial increases in automotive seat production (>100%) over FY24-26F. We believe these new partnerships will be more than enough to mitigate potential near-term headwinds for the industry, in view of impending implementation of fuel subsidy rationalisation by the government that would likely result in slower car sales. Having said that, we believe Feytech might not be badly affected, given that the car sales of its current clients (Mazda, Kia and Peugeot) are mostly from premium segment of the market, which tends to be more resilient in our view.

De-bottlenecking with plant expansion. Presently, Feytech operates Kulim Plant 1 (KP1) with a floor area of 64k sq ft. The floor space is almost fully used up, which represents a bottleneck in its seat manufacturing process and has resulted in a low utilisation rate of 24% for its machinery. Upon transitioning operations to KP3 and the completion of KP2 by 4Q25, Feytech will have a much larger combined floor area of approximately 165k sq ft. As such, we anticipate this will help Feytech to achieve higher machine utilisation rates of 44-64% in FY24-26 respectively.

Opportunity in AHTV. Feytech plans to establish a new manufacturing facility within the AHTV (Automotive Hi-Tech Valley) region. This strategic initiative aims to increase its production capacity and enhance its service to local and other OEMs in the Tanjung Malim area, while optimising lead times and delivery schedules compared to operations at the Kulim Plant. With the completion of this facility, we believe Feytech is poised for additional revenue growth opportunities beyond FY26.

Risk factors for Feytech include (1) Contracts termination; (2) Labour shortages; and (3) Fluctuation of raw material prices.

FY Dec	FY22	FY23	FY24F	FY25F	FY26F
Revenue (RM m)	126.9	211.2	259.4	307.1	312.0
EBITDA (RM m)	40.9	65.5	75.5	97.1	100.1
PAT (RM m)	27.6	43.9	56.3	72.7	75.0
PAT Margin (%)	21.7	20.8	21.7	23.7	24.1
EPS (sen)	3.9	6.3	6.7	8.6	8.9
EPS Growth (%)	44.9	59.0	6.5	29.1	3.2
BV Per Share (sen)	12.2	18.3	32.1	36.4	40.9
PE (x)			12.0	9.3	9.0
Net Gearing (%)	Cash	Cash	Cash	Cash	Cash
ROE (%)			20.8	23.7	21.8

Business Overview

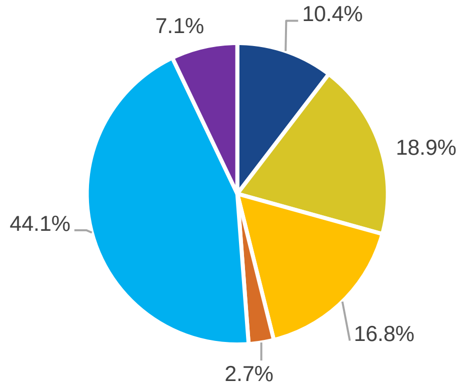
Feytech is principally involved in the manufacturing of automotive seats, automotive covers for automotive seats and interior parts such as door ornaments, steering wheels, gear knobs, handbrake handles and consoles.

Listing Details	
Listing date	21 May 2024
New shares (m)	143.3
Offer for sale (m)	109.6
Funds raised (RM m)	114.7

Post Listing	
Ordinary shares (m)	843.2
Market cap (RM m)	674.6
Free float	17.0
P/E (FY24F)	12.0

Top 3 Shareholders	
Tan Sun Sun	35.0%
Go Yoong Chang	26.7%
Connie Go	8.3%

Utilisation of Proceeds	RM m
Acquisition of land	
Construction of new corporate office with new manufacturing plant and warehouse	
Construction of Kulim Plant 2	
Purchase of new machineries	
Working capital	
Estimated listing expenses	



Source: Company, Mercury Securities

Financial Highlights and Valuation

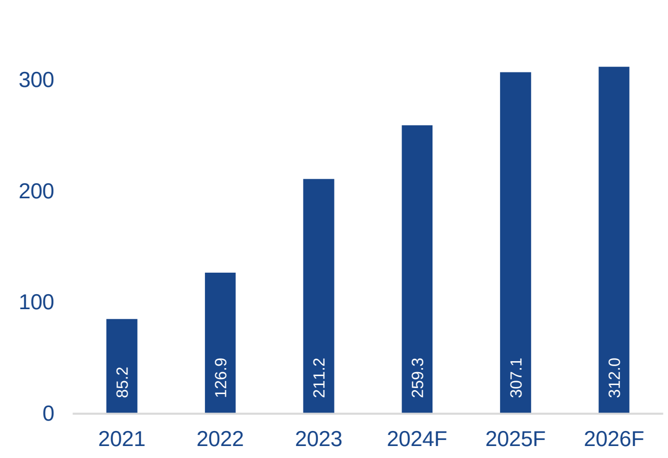
Surging revenue. Feytech has achieved an impressive 3-year CAGR of 38.6% for its revenue, rising from RM79m in FY20 to RM211m in FY23. This growth was primarily driven by increased sales of automotive covers to local OEMs as well as the expansion into automotive seat manufacturing for Kia (started in 2022) and Mazda (started in 2023). Thanks to the expansion, revenue generated from seat manufacturing quadrupled from RM19.5m in FY22, to RM81.1m in FY23.

We understand Feytech has also recently secured new contracts with two new clients (Peugeot and Client 2), which should lead to even higher production volume for the seat manufacturing division going forward. As such, we expect Feytech's revenue to continue to scale higher in FY24-25F, with estimated growth rates of 23% and 18% respectively.

AHTV opportunity. Feytech intends to establish an extra manufacturing facility with an estimated built-up area of 250k sq ft in AHTV, with the aim of enhancing its service to local OEMs and other OEMs situated in the area. Eight new factories are anticipated to complete construction within AHTV by mid-2024, with a target of 40-50 vendors relocating to the region within the next four years. This presents an opportunity for Feytech to attract new clients, benefiting from its proximity to these vendors, which is advantageous compared to its operations in the Kulim plants.

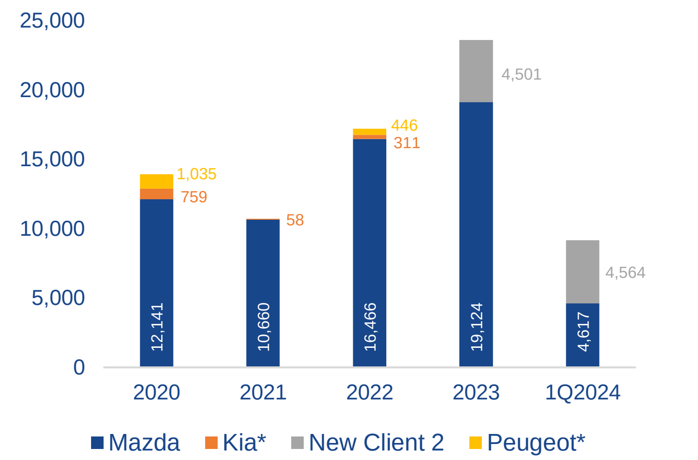
Floor space expansion to de-bottleneck production. Feytech's current facility, KP1, with a floor area of 64k sq ft, is almost fully utilised. This represents a bottleneck in its seat manufacturing process, which has resulted in a low utilisation rate of 24% for its machinery. Upon transitioning operations to KP3 and the completion of KP2 by 4QFY25, Feytech will have a much larger combined floor area of approximately 165k sq ft. We expect this will help Feytech to achieve higher machine utilisation rates of 44-64% in FY24-26 respectively.

Figure 1 : Feytech's revenue trend (RM m)



Source: Mercury Securities, Company

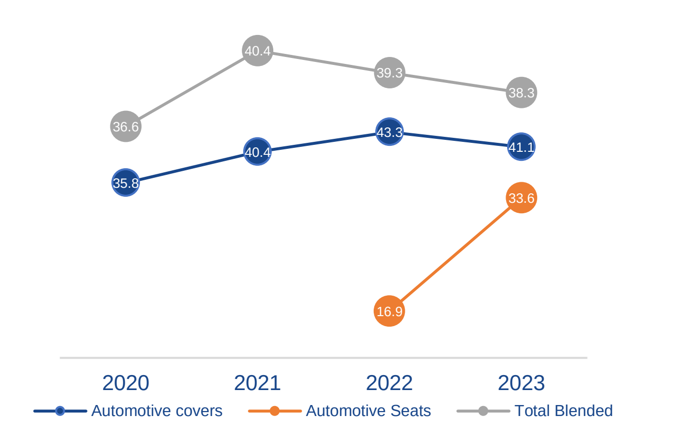
Figure 2 : Total car sales of Feytech's clients, units



Source: MAA, Mercury Securities, Company
**Kia and Peugeot stopped reporting number of car sales in 2023*

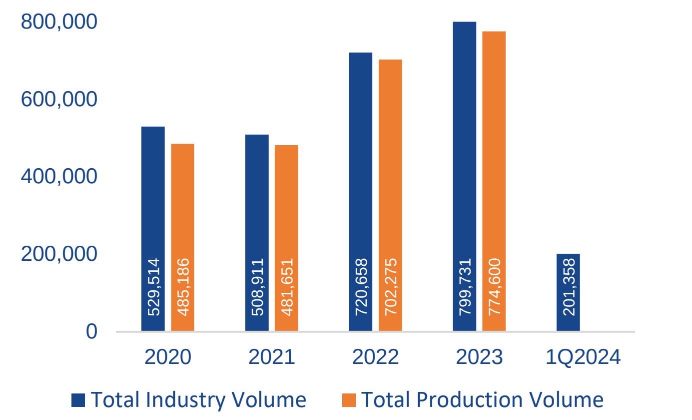
New clients win to outweigh slower car sales. We expect Feytech's net profit to increase by 28%-29% to RM56-73m respectively in FY24-25F, bolstered by the acquisition of two new clients (Peugeot and Client 2). We believe these new client acquisitions will be more than enough to offset any potential softness in car sales in the near term, amid the impending implementation of fuel subsidy rationalisation by the government.

Figure 3 : Gross margins (%), by divisions



Source: Company, Mercury Securities

Figure 4 : TIV and TPV of Malaysia, units



Source: Company, MAA, Mercury Securities

Healthy margins. In the period spanning FY20 to FY23, the combined GP margin witnessed an overall increase from 36.6% to 38.3%. However, there were slight declines noted in FY22, which was mainly due to the commencement of the lower-margin automotive seat manufacturing division (but carries higher ASP). We expect the GP margin to remain stable at 39-41% in FY24-26F, benefiting from larger economies of scale as Feytech revs up its seat production volume higher.

Strong balance sheet. Since FY20, Feytech has consistently held a net cash position. The group plans to adopt a minimum dividend payout policy of 40%. Considering its strong balance sheet and decent cashflow generation, we expect Feytech to distribute 50% of net profits as dividends over FY24-26F.

RM0.95 FV based on 11x FY25F EPS. Our target PE of 11x for Feytech is at about 30% premium to comparable peers' average PE (i.e. EP Manufacturing and APM), which we believe is warranted considering the growth prospect for the group amid new client acquisitions (28%-30% earnings growth in FY24-25F). We note that larger peer Pecca Group is trading at a relatively high historical PE of 23.4x, possibly due to excitement over its recent foray into the Indonesia automotive market and also expansion into aircraft cabin products.

Peer Comparison (as at 6 May 2024)

Company	Bloomberg Ticker	Share Px (RM)	Mkt Cap	EPS Growth (%)		P/E (x)		P/B		ROE (%)		Net Dividend Yield (%)	
			RM m	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024
EP Manufacturing	EPMB MK	0.71	155.3	n.m.	-	8.3	-	0.5	-	6.3	-	-	-
Pecca Group	PECCA MK	1.38	1,037.5	35.1	-	23.4	-	-	-	-	-	2.4	-
APM Automotive Holdings	APM MK	2.78	543.5	129.0	-	9.0	-	0.4	-	4.4	-	4.0	-
Simple Average				**82.1**	**-**	**13.6**	**-**	**0.4**	**-**	**5.4**	**-**	**2.1**	**-**

Source: Bloomberg

Company Background

Automotive cover and seat manufacturer. Feytech specialises in the manufacturing and distribution of automotive covers and seats. The group operates primarily from two manufacturing plants - the Tampoi Plant serving as headquarters in Johor Bahru, and Kulim Plant 1 in Padang Serai, alongside two sales and installation hubs located in Petaling Jaya and Singapore.

Manufacturing – Automotive cover (62% of FY23 sales). Feytech specialises in manufacturing automotive covers targeted at the OEM market segment, catering to automotive vehicle OEMs like Mazda Malaysia (for models such as Mazda 3, CX-5, CX-8, and CX-30) and Kia Malaysia (for models like Kia Carnival and Sorento), along with Tier 1 automotive seat and interior part manufacturers. These notable Tier 1 manufacturers include APM, Adient, and Delloyd. Additionally, the group produces automotive covers for the PDI (Pre-Delivery Inspection) and REM (Replacement Equipment Manufacturer) market segments, serving a diverse customer base including automotive distributors, car owners, used car dealers, importers, automotive dealers, car accessory retailers, and automotive cover installers.

Manufacturing – Automotive seats (38% of FY23 sales). Feytech, as a Tier 1 automotive seat and/or interior part manufacturer, specialises in crafting automotive seats tailored for automotive vehicle OEMs (i.e. Mazda and Kia). The group sold approximately 8,451 seat sets in FY23.

Service region. The revenue from Feytech's automotive cover division, serving the OEM and PDI market segments, as well as sales from the group's automotive seat division to the OEM market segment, are exclusively derived from Malaysia. On the other hand, the group distributes automotive covers to the REM market segment domestically in Malaysia, as well as internationally, reaching markets such as Singapore, Australia, New Zealand, the United States, and the Netherlands.

Figure 5 : Business overview

Principal activities[1]	Manufacturing of automotive covers			Manufacturing of automotive seats
Products	• Automotive seat covers • Interior part covers			Fully-assembled automotive seats
Supplier types	• Automotive cover material suppliers • Interior part suppliers • Suppliers of parts, accessories and other supplies (e.g. zippers, plastic strips and hooks)			• Automotive cover manufacturers • Suppliers of automotive seat supplies (e.g. padding, seatbelts, buckles, electrical parts, frames, side airbags)
Market segments	OEM	PDI	REM	OEM
Customer segments	• Automotive vehicle OEMs • Tier 1 automotive seat and/or interior part manufacturers	• Automotive distributors • Car accessory retailers	• Car owners • Used car dealers • Importers • Automotive dealers • Car accessory retailers • Automotive cover installers	Automotive vehicle OEMs
Geographical markets[2]	Malaysia		• Malaysia • Singapore • Australia • New Zealand • Others [3]	Malaysia

Source: Company

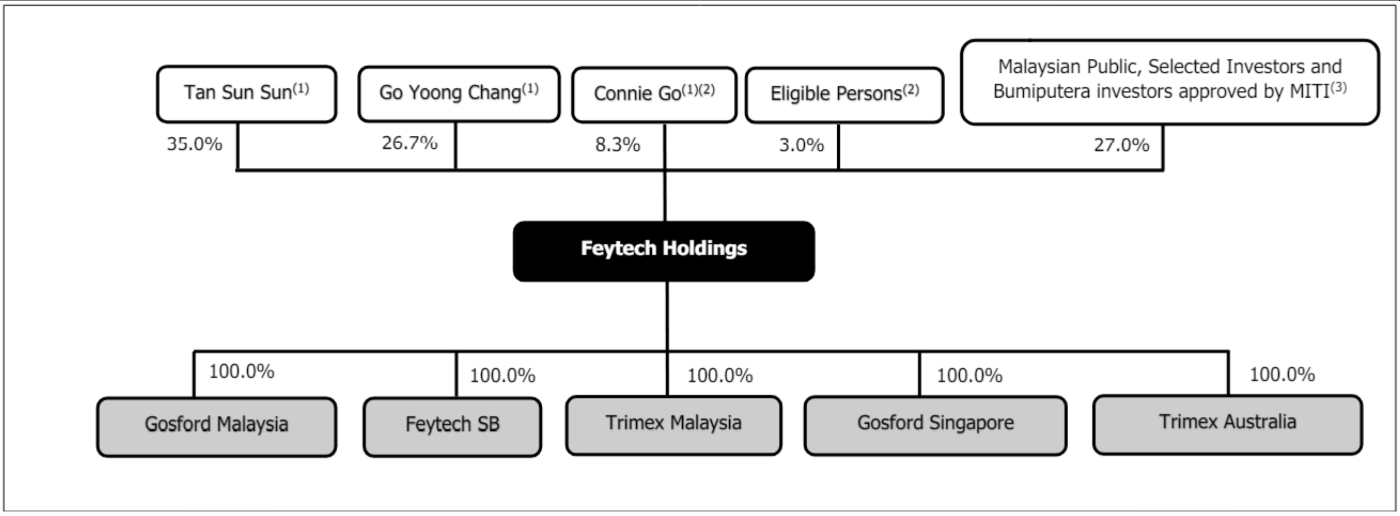
Figure 6: Key Management Team

Name and Designation	Age	Profile
Connie Go Non-Independent Executive Director Chief Executive Officer	49	• Appointed as CEO of Gosford Malaysia in 2019. • Co-founded Gosford Singapore in September 2007 with her late brother. • Oversees the group's strategic planning and overall business operations. • 17 years of relevant experience.
Go Yoong Chang Non-Independent Executive Director	44	• Oversees the group's business development of OEM market segment. • Bachelor of Mechanical Engineering from Universiti Tenaga Nasional, Malaysia.
Tan Sun Sun Non-Independent Executive Director	47	• Oversees the Sales and Marketing department for the REM and PDI market segments in Malaysia. • Diploma in Accounting from London Chamber of Commerce and Industry. • 19 years of relevant experience.
Chua Khee Gee Chief Operating Officer	45	• Manages and oversees all project deliverables and the group's Production, QA/QC and Technical Development departments. • Bachelor's Degree in Mechanical Design and Manufacture from University of Plymouth, United Kingdom. • 19 years of relevant experience.
Tan Ming Shing Chief Financial Officer	40	• Oversees the group's accounting and finance-related matters. • Bachelor's Degree in Accounting from Multimedia University, Malaysia. • Affiliate of the Association of Chartered Certified Accountants. • Chartered Accountant of the Malaysian Institute of Accounts.

Source: Company

Continuing the business. Gosford Malaysia was founded in 2002 by the late Go Yoong Fei, who was the husband of Tan Sun Sun and brother of Go Yoong Chang and Connie Go. In 2019, Connie Go assumed the role of acting Chief Executive Officer, succeeding his late brother. She oversees the group's strategic planning and its overall business operations. Assisting her in managing the group are Go Yoong Chang, her brother, and Tan Sun Sun, her sister-in-law.

Figure 7: Group Structure Post Listing



Source: Company

Future Plans & Business Strategies

Expansion of automotive seat manufacturing operations. Feytech is finalising the acquisition of land in Padang Serai, Kulim, Kedah, where it intends to establish KP2. This land spans approximately 8.1 acres (353,400 sq ft) and is situated near KP1. KP2 will encompass a manufacturing facility, warehouse, annex office building, and staff hostel to accommodate production and warehouse personnel for the automotive seat division.

With an estimated total built-up area of 84,000 sq ft, KP2 will occupy 1.5 acres of the land. Upon completion, the combined manufacturing and storage space for producing automotive seats will increase from around 64,248 sq ft (currently at KP1) to approximately 119,248 sq ft (including KP1 and KP2). Feytech is also in the midst of relocating to KP3 with a larger built-up area of approximately 125,895 sq ft to cater to the group's current need for additional manufacturing and storage space for the production of automotive seats.

Expansion of automotive covers division operations. Feytech's existing PJ Hub has reached its full capacity and lacks sufficient space for accommodating an increase in staff, storage requirements, and areas for client meetings. To address this, the group plans to establish a new corporate office, manufacturing plant, and warehouse in the Klang Valley (specifically Kuala Lumpur and Selangor). This relocation will consolidate all operations currently housed at the PJ Hub into the new corporate office, providing enhanced support to customers in the central region. Additionally, it will facilitate the expansion of the group's Sales and Marketing teams (for REM and PDI segments) and Business Development teams (for OEM segment) in this key area, while also improving the convenience of conducting meetings on-site compared to the group's current headquarters at the Tampoi Plant in Johor Bahru.

Key Risks

Dependent on contracts and agreements secured with automotive vehicle OEMs. Feytech relies on automotive vehicle OEMs that have engaged the group for the provision of automotive covers (either supplying directly to appointed Tier 1 automotive seat and/or interior part manufacturers or directly to automotive vehicle OEMs) and automotive seats (directly to automotive vehicle OEMs). These OEMs include Local OEM, Mazda Malaysia, and Kia Malaysia.

Dependent on foreign workers in operations. Feytech's workforce comprises 203 domestic employees and 380 foreign employees. As such, the group is susceptible to shifts in the availability and expenses associated with hiring foreign labour in Malaysia. Any changes in labour laws, immigration policies, or visa limitations affecting foreign workers could disrupt the group's business operations.

Fluctuation of leather and synthetic leather prices. Feytech's primary cost in automotive cover manufacturing lies in the materials used, with leather and synthetic leather being the predominant types. In FY23, these materials accounted for 21% and 34% of the group's overall purchases.

Exposure to foreign currency fluctuations. Feytech procures its supplies, including leather and synthetic leather for automotive covers from suppliers in South America and China, and automotive seat parts, accessories, and interior parts from Korea and Japan. Transactions for these materials are predominantly conducted in Korean Won (KRW), US Dollar (USD), Japanese Yen (JPY), and Chinese Yuan (RMB). Currently, the group does not have a formal hedging policy in place to address foreign exchange exposure. Consequently, notable fluctuations in these exchange rates could impact the financial performance of the group.

IPO Details

	Offer for Sale (m)	Public Issue (m)	Total (m)	(%)
Retail Offering				
Eligible Persons	-	25.3	25.3	3.0
Malaysian Public (Bumiputera)	-	21.1	21.1	2.5
Malaysian Public (Non-Bumiputera)	-	21.1	21.1	2.5
Institutional Offering				
Bumiputera investors approved by the MITI	105.4	-	105.4	9.5
Other institutional and selected investors	4.2	75.9	80.1	12.5
Total	**109.6**	**143.3**	**252.9**	**30.0**

Source: Company

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